

Message Text

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16
ACTION L-03

INFO OCT-01 ARA-06 ISO-00 TRSE-00 PM-04 NSC-05 SP-02 SS-15

CIAE-00 COME-00 EB-07 INR-07 LAB-04 NSAE-00 SIL-01

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R 112048Z AUG 76
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 4740

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E.O. 11652: N/A
TAGS: EFIN, CS
SUBJECT: DOUBLE TAXATION AGREEMENT

1. FRANZ EDUARTE, WHO HEADS AN ORGANIZATION REPRESENTING RETIRED EMPLOYEES OF UNITED BRANDS, CALLED ON THE EMBASSY TODAY TO INQUIRE ABOUT THE STATUS OF THE PROPOSED DOUBLE TAXATION TREATY. HIS VISIT WAS TIMELY AND PARTICULARLY USEFUL AS HE CLARIFIED THE NATURE OF THE PROBLEM CONCERNING U.S. TAXATION OF PENSIONS PAID TO RETIRED EMPLOYEES OF UNITED BRANDS. HIS CONCERN IS THAT COSTA RICAN CITIZENS WHO HAVE WORKED ALL OF THEIR LIVES IN COSTA RICA AND HAVE NEVER WORKED IN THE UNITED STATES ARE SUBJECTED TO A 30 PERCENT U.S. WITHHOLDING TAX ON THEIR PENSIONS, APPARENTLY BECAUSE THE PENSIONS COME FROM AN AMERICAN COMPANY OR BECAUSE THE PENSION FUND IS INVESTED IN THE U.S. HE STATED THAT SOME TIME BACK THE COMPANY USED TO MAKE THE TAX PAYMENTS FOR THE EMPLOYEES SO THAT THEY COULD ENJOY THEIR ENTIRE PENSIONS, BUT THE COMPANY NO LONGER DOES SO.

2. EDUARTE SHOWED EMBOFF A COPY OF A LETTER DATED JANUARY 30, 1976 FROM FOREIGN MINISTER FACIO TO AMBASSADOR SILVA WHICH FORWARDED A COPY OF A DRAFT TREATY, BASED ON THE U.S.-HONDURAS TREATY, AND INSTRUCTED
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HIM "TO PRESENT IT TO THE USG AND INFORM THE USG OF

COSTA RICA'S DESIRE TO SIGN IT SOON." EDUARTE UNDERSTANDS THAT THE DRAFT TREATY WAS APPROVED BY THE MINISTRY OF FINANCE BEFORE ITS TRANSMITTAL TO WASHINGTON (THIS IS ALSO THE EMBASSY'S UNDERSTANDING). GIVEN THIS BACKGROUND, EDUARTE ASSUMED THAT THE LACK OF PROGRESS INDICATED THAT THE USG MUST BE OPPOSED TO SIGNING A DOUBLE TAXATION TREATY. EMBOFF STATED THAT, TO THE CONTRARY, THE USG HAS SIGNED SUCH TREATIES WITH MANY COUNTRIES, IS INTERESTED IN SIGNING THEM WITH OTHER COUNTRIES, AND WOULD SIGN ONE WITH COSTA RICA IF THE GOCR WISHES. EMBOFF STATED THAT HE WAS AWARE THAT SOME CONVERSATIONS HAVE TAKEN PLACE IN WASHINGTON BUT WAS NOT INFORMED AS TO THE EXACT STATUS OF THE MATTER, BUT WOULD INQUIRE.

3. RECOMMENDED ACTION: IF THE USG WISHES TO CONCLUDE A DOUBLE TAXATION TREATY WITH COSTA RICA, THE TIME IS NOW AND THE BEST TEXT MAY BE THE ONE THAT HAS ALREADY RECEIVED THE APPROVAL OF THE COSTA RICAN GOVERNMENT. (EMBASSY ASSUMES THAT THIS TEXT IS ALSO ACCEPTABLE TO THE USG AS IT IS SAID TO BE IDENTICAL TO THE TREATY WE SIGNED WITH HONDURAS). AS REPORTED REFTEL, IT COULD WELL BE OF CRITICAL IMPORTANCE TO PROCEED BEFORE FOREIGN MINISTER FACIO RESIGNS TO ENTER THE PRESIDENTIAL NOMINATION RACE HERE, WHICH IS EXPECTED TO OCCUR ON OCTOBER 1. THE SOMEWHAT NEGATIVE PUBLICITY THAT THE PROPOSED TREATY HAS ALREADY RECEIVED HERE IS EVIDENCE THAT IT COULD BECOME SUFFICIENTLY CONTROVERSIAL TO PRECLUDE ITS ACCEPTANCE BY COSTA RICA WITHOUT SOMEONE WHO STRONGLY FAVORS IT IN A KEY POSITION TO MOVE IT ALONG. THE EMBASSY WOULD NOT ASSERT THAT THE COSTA RICAN POSITION ON THE TEXT OF THE TREATY IS AN INFLEXIBLE ONE, OR THAT MODIFICATIONS TO THE HONDURAN MODEL ARE UNLIKELY TO BE ACCEPTED, BUT WOULD RECOMMEND THAT ANY MODIFICATIONS THAT THE U.S. SIDE MIGHT WISH TO PROPOSE BE EVALUATED BY WEIGHING THEIR SIGNIFICANCE TO US AGAINST THE RISKS OF DELAY.

4. THE EMBASSY WOULD APPRECIATE BEING ADVISED OF THE STATUS OF THE NEGOTIATIONS, IF ANY, ON THIS MATTER.

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Message Attributes

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